MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2017/2018

BFN2244 – FINANCIAL STATEMENT ANALYSIS

(All Sections / Groups)

14 March 2018
2.30 p.m. – 4.30 p.m.
(2 Hours)

INSTRUCTION TO STUDENT

1. This Question paper consists of 9 pages with **FOUR (4)** Questions only. (Including Front Page and Consolidated Financial Statements)

2. Answer **ALL** questions.

3. Write your answers in the Answer Booklet provided.

QUESTION 1 & 2

Tan Chong Motor Holdings Berhad also known as the TCMH Group or simply Tan Chong Motor (TCM) is a Malaysia-based multinational corporation that is active in automobile assembly, manufacturing, distribution and sales, but is best known as the franchise holder of Nissan vehicles in Malaysia. Tan Chong Motor Holdings Berhad was incorporated on 14 October 1972, and in 1974, the company was listed on the Kuala Lumpur Stock Exchange. The following extracts financial statements and report of the board of directors are taken from the annual report of Tan Chong Motor Holdings Berhad for the year ending 31^{sr} December 2015.

REPORT OF THE BOARD OF DIRECTORS

As Tan Chong Motor Group entered the financial year 2015, we continue to face strong headwinds due to the challenging macro-economic forces confronting Malaysia. In 2015, the Malaysian Ringgit continued to slide. The uncertainties of the economic environment have dampened consumers' confidence and drove the consumer sentiments index further down. Banks had tightened lending requirements. We also saw the after-effects of the implementation of the Goods and Services Tax (GST) on 1 April 2015 on the market and consumers' buying behaviour. Domestic consumers' enthusiasms were chilled by a myriad of uncertainties and hazy economic prospects as the frontal impact of higher cost of living hit home. We also witnessed a very competitive business landscape due to intensified efforts to sustain market position.

The US Federal Reserve interest rate hike and sliding commodity prices, especially crude oil prices, are some of the key factors resulting in a weaker Malaysian Ringgit against major currencies such as US Dollar, Japanese Yen and Euro Dollar. These have contributed to higher overall costs of business for the Group.

At the regional level, the reverberations of the slowdown in China's economic momentum have also been felt in the domestic and regional markets and shaken investors' confidence. Further across the oceans, the recovery of US economy has gained traction in the second half of 2015 while the European Union states' path to economic recovery remains fragile tempered with geopolitical and security concerns.

The Consolidated Financial Statements are attached.

QUESTION 1

a) Based on the attached **Consolidated Financial Statements** and above **Report of the Board of Directors,** compute and briefly evaluate the changes in revenue, gross profit, profit before taxation and profit for the year for the financial period 2014-2015.

(10 marks)

Continued...

b) Based on the attached **Consolidated Financial Statements** calculate the return on equity and its component ratios (Net profit margin, total asset turnover and financial leverage) for the financial periods 2014-2015 and evaluate your results. **(15 marks)**

(Total: 25 marks)

QUESTION 2

a) Analyze how the discussion in **Report of the Board of Directors** supporting the situation of liquidity and profitability position faced by Tan Chong Motor Holdings Berhad. **(15 marks)**

b) The board of directors has laid out the prospects and strategies going forward as follow.

- The global economy is expected to remain gloomy and uncertain amid weak crude oil price and other commodities prices. The slowdown in China's economy will depress Malaysia's domestic economy and weigh down on consumers spending habits, causing them to go into belt-tightening mode. This poses a source of concerns for businesses.

- We are cautious of any growth expectations in the domestic automotive sector for 2016 in an environment heightened with economic uncertainties. New vehicles sales which have been on an uptrend in previous years could reverse and contract in 2016. This is consistent with MAA's outlook of a 2.5% contraction in the domestic automotive sector to 650,000 units for 2016. The weak Ringgit against the strong US Dollar and other currencies in the basket will put pressure on business margins as imported costs remain high. We expect the competitive business landscape to continue into 2016 as automotive companies will intensify efforts to protect and maintain market share.

- Notwithstanding the current challenging market conditions, the Group will continue to drive forward with innovative sales and marketing strategies to push revenue in order to maintain the growth momentum of Tan Chong Motor Group's domestic and overseas businesses. The Group remains steadfast with our meticulous approach in managing investments and deploying resources and exercise prudence and vigilance over financial and risk management to maximise shareholders' value. This has been the fundamental foundation and strength driving Tan Chong Motor Group as we steer through the stormy economy. We will press on with our on-going improvement efforts on operational efficiencies, cost effectiveness and rationalisation.

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- The promising sparks of economic growth in the Indo-China emerging markets such as Vietnam and Myanmar provide some glimmer of prospects to the region engulfed by a sea of economic uncertainties. These two vibrant and youthful economies with a combined population of 150 million hold promises for the future of Asean economic growth and our Group's investments in those countries.

- We remain steadfast to our strategic commitments in expanding to the regional markets in anticipation of Asean's goal of economic integration via the Asean Economic Community (AEC) and the liberalization of the Indo-China emerging markets

Based on above, comment on the implications for the core financial statements and their significance to stock valuation in the future. **(10 marks)**

(Total: 25 marks)

QUESTION 3

a)

Berjaya Auto Company's statement of financial position for 2015 and 2016		
	2016	2015
Assets		
Cash and cash equivalents	30,500	10,000
Account Receivable (net)	64,500	51,000
Inventory	100,000	115,000
Equipment	55,000	30,000
Accumulated depreciation –Equipment	(21,500)	14,000
Total Assets	**228,500**	**192,000**
Liabilities and Stockholders' equity		
Accounts Payable	52,500	46,000
Long term notes payable	70,000	50,000
Capital stock	60,000	60,000
Retained earnings	46,000	36,000
Liabilities and Stockholders' equity	**228,500**	**192,000**

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The following additional information is available: net income for the year 2016 (as reported on the income statement) was RM50,000; dividends of RM40,000 were declared and paid; and equipment that cost RM8,000 and had a book value of RM1,000 was sold during the year for RM2,500.
Based on the information provided, answer the following:

(i) What was cash provided by operations for year 2016? **(10 marks)**
(ii) What was cash provided by investing activity for year 2016? **(4 marks)**
(iii) How much was cash provided by financing activity for year 2016? **(4 marks)**
(iv) What is the total change in cash for year 2016? **(2 marks)**

b) Is it possible to have a positive net income and negative cash flow from operations? If your answer is no, explain fully. If your answer is yes, provide two examples when one might find this. **(5 marks)**

(Total: 25 marks)

QUESTION 4

a) Projected Income Statement is the most crucial components under the prospective analysis. You are required to identify at least TWO factors influencing each of the following income statement's items

Income statement's items	**Factors**
Sales	
Admin, selling and general expenses	
Depreciation	
Interest	
Income Tax	

(10 marks)

Continued...

b) You are given the following information for UMW Motor Company. As of year 1, the company's book value is RM50,000 and its cost of capital is 15%.

	Year 1 RM	Year 2 RM	Year 3 RM	Year 4 RM	Year 5 RM
Sales	122,000	114000	105,000	96,000	82,855
Operating Expenses	100,000	90,000	80,000	70,000	57,145
Depreciation	10,000	11,300	12,770	14,430	14,430
Net income	12,000	12,700	12,230	11,570	11,280
Dividends	6,000	6000	5,600	5,700	5,100
Expected book value	50,000	56,000	62,700	69,330	75,200
ROCE	0.2400	0.2268	0.1951	0.1669	0.1500

Dividends for year 6 and beyond are expected to remain at year 5 level.

i) Compute Company's abnormal earnings for year 1 to year 5 **(5 marks)**

ii) Use an accounting based valuation model to estimate the value of Company's equity on January 1st of year 1, year 2, year 3, year 4 and year 5 **(5 marks)**

iii) Use the Price-to-Earnings (PE) Ratio formula to determine the Price-to-Earnings (PE) Ratio on January 1st of year 2, year 3, year 4 and year 5 **(5 marks)**

(Total: 25 marks)

End of page

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2015

	Note	Group		Company	
		2015	2014	2015	2014
		RM'000	RM'000	RM'000	RM'000
Revenue	21	5,716,654	4,760,628	58,390	89,300
Cost of sales		(4,780,369)	(3,878,682)	-	-
Gross profit		936,285	881,946	58,390	89,300
Other income		125,080	136,666	13,629	3,272
Distribution expenses		(469,337)	(415,440)	-	-
Administrative expenses		(347,968)	(340,118)	(14,055)	(11,606)
Other expenses		(75,052)	(53,399)	-	(658)
Results from operating activities		169,008	209,655	57,964	80,308
Finance income	22	15,652	14,229	44,042	13,022
Finance costs	23	(71,774)	(56,014)	(57,332)	(23,787)
Net finance cost		(56,122)	(41,785)	(13,290)	(10,765)
Share of profit of equity -accounted investees, net of tax		2,366	2,975	-	-
Profit before tax	24	115,252	170,845	44,674	69,543
Tax (expense)/income	26	(45,350)	(51,191)	572	112
Profit for the year		69,902	119,654	45,246	69,655

STATEMENTS OF FINANCIAL POSITION
as at 31 December 2015

	Note	Group		Company	
		2015	2014	2015	2014
		RM'000	RM'000	RM'000	RM'000
Assets					
Property, plant and equipment	3	1,704,190	1,731,688	545	898
Investment properties	4	186,633	173,078	-	-
Prepaid lease payments	5	49,798	44,524	-	-
Intangible assets	6	14,592	14,592	-	-
Investments in subsidiaries	7	-	-	1,510,212	1,504,413
Equity-accounted investees	8	40,415	36,793	13,652	13,652
Other investments	9	1	1	489	5,847
Deferred tax assets	10	35,722	34,787	4,666	4,094
Hire purchase receivables	11	369,507	350,594	-	-
Finance lease receivables	12	9,153	636	-	-
Receivables	13	-	-	890,090	209,057
Total non-current assets		2,410,011	2,386,693	2,419,654	1,737,961
Other investments	9	3,416	127,059	-	-
Inventories	14	1,645,195	1,513,641	-	-
Current tax assets		36,300	25,428	-	4,257
Hire purchase receivables	11	82,470	89,847	-	-
Receivables	13	552,943	470,843	152,375	748,684
Deposits and prepayments	13	269,144	51,529	459	113
Derivative financial assets	15	6,045	-	-	-
Cash and cash equivalents	16	165,856	341,522	637	3,456
Total current assets		2,761,369	2,619,869	153,471	756,510
Total assets		5,171,380	5,006,562	2,573,125	2,494,471

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2015

	Note	Group		Company	
		2015	2014	2015	2014
		RM'000	RM'000	RM'000	RM'000
Equity					
Share capital		336,000	336,000	336,000	336,000
Reserves		2,485,524	2,443,592	964,670	952,057
Treasury shares		(25,274)	(24,990)	(25,274)	(24,990)
Total equity attributable to owners of the Company		2,796,250	2,754,602	1,275,396	1,263,067
Non-controlling interests		(1,602)	5,951	-	-
Total equity	17	2,794,648	2,760,553	1,275,396	1,263,067
Liabilities					
Borrowings	18	818,675	905,768	747,085	746,591
Employee benefits	19	51,058	43,726	18,959	16,744
Deferred tax liabilities	10	143,791	151,625	-	-
Payables and accruals	20	-	-	366,962	380,212
Total non-current liabilities		1,013,524	1,101,119	1,133,006	1,143,547
Borrowings	18	670,757	506,972	150,000	-
Taxation		14,857	6,340	-	-
Payables and accruals	20	677,594	631,578	14,723	87,857
Total current liabilities		1,363,208	1,144,890	164,723	87,857
Total liabilities		2,376,732	2,246,009	1,297,729	1,231,404
Total equity and liabilities		5,171,380	5,006,562	2,573,125	2,494,471

The notes on pages 52 to 134 are an integral part of these financial statements.